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Briefing note

Macroeconomic projections for the Spanish economy (2018-2020): the Banco de España's contribution to the Eurosystem's June 2018 joint forecasting exercise

This note outlines the key features of the macroeconomic projections for the Spanish economy for the period 2018-2020 which the Banco de España has published today on its website (available at this [link](#)). These projections include the new information that has become available since the previous projections were published in **March**.¹

The projections point to **a continuation of the current expansionary phase**, supported by the progress made in correcting the economy's macro-financial imbalances, endowing it with greater resilience to adverse shocks. However, **GDP growth is still expected to moderate** over the projection horizon, owing to various factors, such as the recent rise in oil prices, a degree of deceleration in the external markets and moderation of the positive impact of monetary policy on credit conditions. Nevertheless, the expansionary nature of the latest tax measures contained in the draft Budget for the State and the Social Security system for 2018 would partially offset the above-mentioned negative factors.

On balance, **it is anticipated that the rate of growth of GDP will decelerate, from 3.1% recorded in 2017 to 2.7% in 2018, 2.4% in 2019 and 2.1% in 2020**. Compared with the **previous forecasts**, **GDP growth in 2019 has been revised up by 0.1 pp**, mainly owing to the tax measures and, to a lesser extent, to the prospect of greater depreciation in the euro exchange rate than was observed in previous quarters, although these impacts will be partially offset by the contractionary effect associated with higher oil prices.

GDP growth will continue to be underpinned by national demand, although the latter is expected to decelerate somewhat in coming years. In turn, **net external demand should continue to make a slightly positive contribution** throughout the projection horizon.

As is habitually the case in upturns in the Spanish economy, **employment** growth per unit of output will remain very high in coming years. The sustained increase in employment will give rise to a **continued fall in the unemployment rate**, down to around 11% by the end of 2020.

¹ Specifically, the changes observed between 9 March and 22 May in the technical and fiscal assumptions and in the forecasts for the external setting of the Spanish economy. Moreover, the current projections exercise includes Quarterly National Accounts (QNA) data for Q1, and the data received up to 31 May.

As regards inflation, the consumer price index (CPI) is expected to **accelerate in the near term**, linked to the recent increase in crude prices. From the autumn, the energy component's contribution to growth in the overall indicator should start to decline, as a result of the negative base effect stemming from the rise in oil prices a year earlier and the descending pattern in oil futures. However, this will tend to be largely countered by the **gradual increase in core inflation**, in keeping with the widening of the positive output gap, which would be reflected in a higher rate of growth of unit labour costs. In annual average terms, **the CPI is expected to grow by 1.9% in 2018** (as in 2017), **followed by more moderate increases of 1.7% in 2019 and 1.6% in 2020. The inflation projections have been revised up for 2018 and 2019** (by 0.6 pp and 0.4 pp, respectively), reflecting above all the new trajectory expected for oil prices.

The **risks to the baseline scenario for GDP growth** are tilted to the downside. On the external front, the possible emergence of financial stress associated with a resurgence of geopolitical uncertainty or with the process of normalisation of monetary policies, especially in the United States, cannot be ruled out. Moreover, a possible escalation in protectionist measures could affect the buoyancy of trade and global economic activity and could have a negative impact on the Spanish economy which has come to rely on exports to drive growth throughout the recovery. In the domestic arena, the current parliamentary fragmentation could hinder the implementation of structural reforms and slow down the reduction in government indebtedness, with adverse effects on agents' confidence. In addition, a hypothetical rise in uncertainty over the political situation in Catalonia cannot be ruled out.

In the case of inflation, the risks of departure from the baseline scenario are also tilted to the downside. This is as a result of a hypothetical materialisation of the risks to activity described above, and of the possibility that the reduction in the degree of cyclical slack may not translate into as sharp a rise in core inflation as projected, against a background of uncertainty over the volume of idle resources in the economy and the responsiveness of prices to developments in activity.